

November 10, 2008

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Aerospace Industry Holding its Own

The nation's aerospace industry is holding up better than the rest of the slumping economy, and that's likely to offer support for Colorado's economy. Experts expect Colorado's aerospace sector to weather any downturn better than industries such as retail, manufacturing, telecommunications and construction. They point to the lucrative, long-term contracts Colorado aerospace companies have won and strong Pentagon spending. During the Bush administration military spending has jumped about 40 percent - although that spending could taper some because of the unfolding financial crisis and a new occupant in the White House. Colorado Gov. Bill Ritter recently told Colorado Public Radio's Colorado Matters that the state's aerospace industry appears "inoculated" against an economic downturn. Experts also are relatively upbeat. "It's certainly going to hold up better than most industries," said University of Colorado economist Rich Wobbekind. "The headwinds are so strong that there will be sectors of the economy that are going to have a tough time next year." Patty Silverstein, economist with Development Research Partners, expects that Colorado's aerospace business will "hold up through the challenges of 2009." But she doesn't expect the aerospace industry - or any sector - to put in a "stellar performance." Silverstein is forecasting overall job growth in Colorado next year of 1.5 percent, with aerospace outpacing that performance. "Given the softness we're expecting in the economy next year, every little bit of job growth will help keep our economy moving forward," Silverstein said. According to a report prepared by Silverstein for the Denver Metro Economic Development Corp., Colorado ranked No. 2 last year for the size of its aerospace work force, behind California. Colorado's private aerospace work force in 2007 stood at 26,650. The state is home to more than 300 aerospace companies. Among companies with large local presences are Lockheed Martin Corp., Raytheon Co., Centennial-based United Launch Alliance, Northrop Grumman Corp. and Boulder-based Ball Aerospace & Technologies Corp. Lockheed Martin's Space Systems unit in Jefferson County is working on an \$8.2 billion NASA spacecraft contract that has generated hundreds of high-paid engineering jobs. In May, the company landed a contract worth up to \$3.6 billion to design and build a fleet of next-generation military navigational satellites for the Air Force. Lockheed Martin Space Systems - which employs 5,000 in Colorado, mainly in the Denver area - will build and test the satellites at its Waterton Canyon campus in Jefferson County. "We have a very strong backlog," said Lockheed Martin Space Systems spokeswoman Joan Underwood. The company also hopes to land a major contract in coming months from Uncle Sam to build a fleet of new weather satellites, dubbed GOES-R. Raytheon's Aurora campus is competing to work on the ground system that would control the GOES-R satellites. Raytheon, which employs about 2,100 in Aurora, also hopes to land a big Air Force contract next year to build the ground system for a fleet of next-generational GPS satellites. The company has raised the possibility of adding a new building at its Aurora campus, should it win the two deals. "These contacts would add new jobs to the Aurora and Colorado economies," said Raytheon spokesman Keith Little. He could not specify how many jobs would be added. Despite the faltering economy, the aerospace industry has been reporting respectable earnings. Last month, for example, Raytheon said third-quarter profits jumped 43 percent. It credited higher international sales of border-security equipment and Patriot air-defense systems. The Waltham, Mass.-based company also announced that its 2008 profits would be higher than previously forecast and that results next year may top Wall Street

estimates. Los Angeles-based Northrop Grumman said higher sales of surveillance systems and aircraft electronics helped lift third-quarter profits. Lockheed Martin, based in Bethesda, Md., reported higher profits but lower revenue. "Compared to a lot of other segments of the economy, we're doing pretty well," said Todd Mosher, director of advanced systems at MicroSat Systems. "It doesn't look like we'll be losing our jobs soon." The Jefferson County company is a key member of a team that won a \$117 million contract in May to build 18 small satellites for a New Jersey company. MicroSat will build the satellites here. But experts don't expect the government spending that has fueled the aerospace sector - including the wars in Iraq and Afghanistan - to remain as strong as it has. They point to the imminent entrance of a new president as well as the \$700 billion financial rescue package that is putting a squeeze on Uncle Sam's piggy bank. **(Rocky Mountain News)**

Mountain States Business Outlook Weakens

Weak results for Colorado and Utah contributed to a three-point decline in the Mountain States Business Conditions Index for October, officials said Monday. The overall index, a leading economic indicator from a survey of supply managers in the three-state region of Colorado, Utah and Wyoming, slipped to 53.2 from September's 56.3. A reading of 50 is considered growth-neutral. "Businesses with strong ties to energy continue to experience healthy growth," Ernie Goss, CEO of the Goss Institute for Economic Research, said in a statement. "However, we are beginning to detect fallout from the national housing crisis and related financial services calamity in Colorado and Utah." The employment index fell to 42.3 from 54.7 in September. Colorado's Business Conditions Index for October plunged to 45.0, below the growth-neutral point, from 58.5 in September. "Transportation equipment manufacturers in the state are experiencing very weak business economic activity," Goss said. "Likewise, the slowdown in the U.S. and global economies has very negatively affected the state's large computer and electronic manufacturing industry. I expect the state's unemployment to rise by a full percentage point by the second quarter of 2009." Utah's index also slumped below growth-neutral, to 46.0 from 54.2 in September. Wyoming, on the other hand, dipped slightly to a robust 73.4, from 75.2 in September. The mining and natural resources sector continues to boost the state's economy, and non-durable manufacturing is growing, Goss said. The Goss Institute conducts the monthly survey for Supply Management Institutes in the three states. **(Denver Business Journal)**

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BH REIT II Closes on 1875 Lawrence

Behringer Harvard Opportunity REIT II this week closed on the acquisition of 1875 Lawrence, a 15-story CBD office building here that it says is 97% leased. The REIT says it paid Principal Life Insurance Co. \$35 million (\$188 per sf) for the asset 186,000-sf (net rentable) building on a 0.6-acre lot. BH REIT II assumed the purchase contract earlier this month from Harvard Property Trust LLS, an affiliate of its advisor. The building was built in 1982 at the corner of 18th and Lawrence streets in the LoDo (Lower Downtown) submarket with three levels of underground parking garage. Principal Capital Management LLC of Des Moines, IA, paid about \$22.3 million in 2001, according to a GlobeSt.com report at the time. BH Opportunity REIT II COO Samuel Gillespie says the property was acquired for "well

below replacement cost" and provides "both strong current income and clearly defined opportunities for value creation." He says the ownership strategy is to increase the value of the property is through well-planned capital improvements and the renewal or releasing of existing below-market space over the next few years at market rates. "The all-in price per pound for brand new construction is approximately \$300 per sf," Gillespie tells GlobeSt.com. "A substantial part of the building rolls over the next few years; we have had a great experience releasing space at Alamo Plaza (a 16-story office building located two blocks away that another BH entity acquired in 2005) and believe there is a long runway left at 1875 Lawrence to do the same thing." The property shares a city block with a planned mixed-use development that is slated to include a high-rise office tower, and is two blocks north of a new Ritz-Carlton Hotel that opened in January 2008. Another nearby amenity is Denver's Union Station, which is now undergoing extensive redevelopment. In addition to 1875 Lawrence and Alamo Plaza, Behringer Harvard entities also own 7400 South Tuscan Way, a property in the southeastern Denver suburb of Centennial that it acquired in 2004 and earlier this year invested in Alexan Prospect, a multifamily community under construction in the Central Platte Valley of downtown Denver. **(Globest.com)**

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Retailers Report Steep Sales Declines in October

The nation's retailers saw their sales plummet last month to the weakest October level since at least 1969, as the financial crisis and mounting layoffs left shoppers too scared to shop. The stunning drop-off from an already weak September performance is further darkening the outlook for the holiday season and dimming hopes for any industry recovery until at least the second half of next year. As merchants reported their dismal sales figures Thursday, Wal-Mart Stores Inc., the world's largest retailer, proved to be among the few bright spots as it benefits from shoppers focusing on buying basics at discounters. Most other stores, from luxury merchants to teen retailers, suffered steep sales declines as consumers were spooked by shrinking retirement funds and volatile markets. The number of people continuing to receive jobless benefits reached its highest level in more than 25 years, according to government figures released Thursday. Even warehouse club operator Costco Wholesale Corp., which sells items like TVs along with basics, posted disappointing results. "Wal-Mart's solid performance is reflective of the weakness in consumer spending," said Ken Perkins, president of research company RetailMetrics LLC. "As soon as the financial crisis hit, consumers spending dropped dramatically. ... Consumer spending ground to a halt in October." Michael P. Niemira, chief economist at the International Council of Shopping Centers, described October's performance as "awful." "This reflects the severity of the current financial crisis," he said. According to the ICSC-Goldman Sachs index, sales fell 1 percent, the weakest October performance since at least 1969 when the index began. That compares to a 1 percent gain in September and well below the 1.8 percent average pace so far this fiscal year, which for retailers begins in February. Excluding Wal-Mart, the October sales number was down 4.6 percent. The index is based on same-store sales, or sales at stores opened at least a year, which are considered a key indicator of a retailer's health. Wal-Mart, which has seen its aggressive discounting resonate with shoppers, posted a 2.4 percent gain in same-store sales, beating Wall Street projections for a 1.6 percent gain. Including fuel sales, same-store sales rose 2.5 percent. At Sam's Club, its warehouse club division, fresh food, dry groceries and

other consumables were strong. Weaker categories included electronics, jewelry and home-related products, the company said. Wal-Mart predicted that same-store sales for its overall U.S. stores will be up from 1 percent to 3 percent in November. Target Corp. - which has lagged behind Wal-Mart in recent months because of its heavier emphasis on nonessentials - posted a 4.8 percent drop, worse than the 2.8 percent decline that analysts had expected. "Sales for the month of October were very disappointing, with continued volatility in daily results," Target's President and Chief Executive Gregg Steinhafel said in a statement. "We expect the recent challenging sales environment to continue into the holiday season and beyond as a result of the economic factors currently affecting consumer spending." Costco, hurt by currency effects, reported a 1 percent decline in October. Analysts surveyed by Thomson Reuters expected a gain of 3.6 percent. Macy's Inc. reported a 6.3 percent drop in same-store sales for October. No estimate from Thomson Reuters was available. Gap Inc. saw a 16 percent drop, worse than the 11.1 percent decline Wall Street had forecast. The retailer reaffirmed its profit outlook for the third quarter, however, as it focused on inventory control. Limited Brands Inc. reported a 9 percent drop in October, a bigger decline than the 7.2 percent analysts were expecting. Even teens dramatically scaled back their spending. American Eagle Outfitters Inc. reported a 12 percent drop in same-store sales, worse than the 8 percent decline predicted, while Abercrombie & Fitch Co. suffered a 20 percent drop last month, steeper than the 14.4 percent decline expected. Wet Seal Inc. saw its same-store sales fall 6.2 percent, less than the 8.6 percent decline expected. The teen retailer said it now expects third-quarter profit at the high end of its guidance. **(AP)**

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For New Offices, it's All About the Ride

New office buildings opening in southeast Denver are leasing well as long as they're next to a light-rail stop. Developer John Madden's Palazzo Verdi, which has direct access to the light-rail line, is 100 percent leased to Ciber and Newmont Mining. The building opens next week. But Shea Properties' Maroon V, which does not have direct access to light rail, is sitting vacant. The building opened before Shea's Village Center Station, which is under construction along the rail line and is fully leased. Wireless-service provider Cricket and Shea will occupy the building. One Lincoln Station at the end of the rail line in Lone Tree is fully leased to directory publisher Dex. The rail line runs from downtown along Interstate 25 and up Interstate 225. "If you're on the (light-rail) line, the market is pretty . . . good," said Bob Whittelsey, a principal at Colliers Bennett & Kahnweiler Inc., who handled leasing for Palazzo Verdi. "If you're off the line, the market is fairly soft." The southeast market had a 17.5 percent vacancy rate for the third quarter, compared with an 11.5 percent vacancy for downtown, according to a report by Grubb & Ellis. The vacancy rate for metro Denver was 15.8 percent. Cricket chose to pay more to locate at Village Center rather than go to Opus Northwest's Parkside project because of Village Center's proximity to light rail, said Todd Roebken, managing director of Jones Lang LaSalle. "They did it for their employees," Roebken said. "Everything that's on a light-rail stop is leased. As Denver grows, those locations are going to become more and more important." Several projects both on and off the light-rail system didn't get underway before the credit markets came to a screeching halt this fall. Buildings proposed for sites not on rail never got off the ground because there was little interest from tenants. But the economy is to blame for those proposed along the rail line. Among them was a building proposed by Trammell Crow Co. on Continuum

Partners' property at Belleview Station, a site Roebken said he believes would have done well had office space been built. But Tom Gougeon, chief development officer for Continuum, said escalating construction costs forced the company to delay the project. "We certainly have office space planned," Gougeon said. "It just felt like we were trying to force it." Continuum also has had to rethink how it's going to develop its retail and restaurant space since Hanover Apartments at East Belleview Avenue and I-25 decided to hold off on developing its multi-family project, he said. "We have to make sure we don't lose the opportunity to capture some of those national restaurants and retailers who want to be there," Gougeon said. **(Denver Post)**

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	CURRENT	1 MONTH PRIOR	1 YEAR PRIOR
FED FUNDS RATE	1.00	2.00	4.50
3 MONTH LIBOR	2.29	4.32	4.90
PRIME RATE	4.00	5.00	7.50
10 YEAR TREASURY	3.83	3.67	4.28
30 YEAR TREASURY	4.25	4.03	4.67

